



# WEEKLY ECONOMIC DIGEST

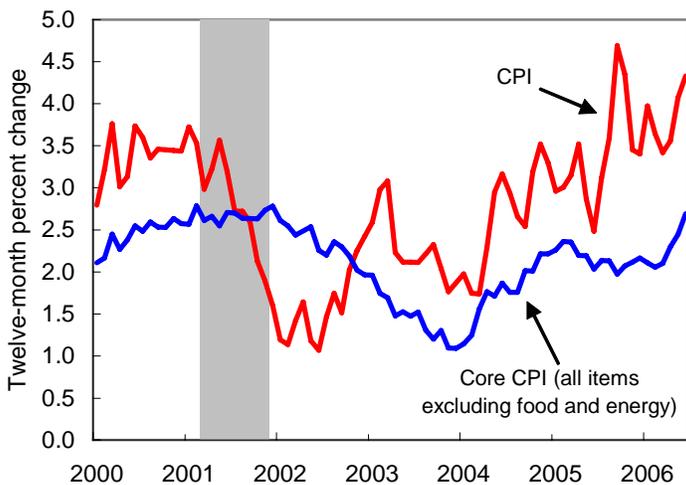


JOINT ECONOMIC COMMITTEE – DEMOCRATIC STAFF  
SENATOR JACK REED (D-RI) – RANKING DEMOCRAT

July 25, 2006

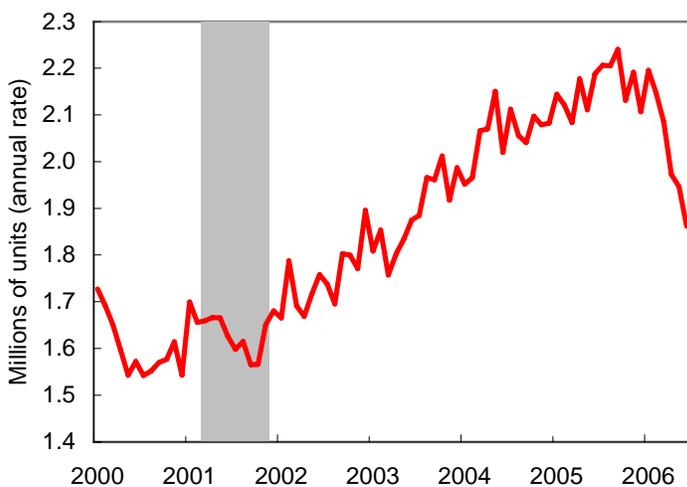
## Persistent Core Inflation and Housing Slowdown Highlight Fed's Dilemma

Consumer Price Indexes



Source: Bureau of Labor Statistics, U.S. Department of Labor and National Bureau of Economic Research.

Building Permits for New Private Housing



Source: Census Bureau, U.S. Department of Commerce and National Bureau of Economic Research.

Note: The gray areas indicate a period of recession as defined by the National Bureau of Economic Research.

- **Lower energy prices held down consumer price inflation in June.** The consumer price index (CPI) rose by 0.2 percent last month as the price of energy goods and services fell by 0.9 percent. However, energy prices remain 23.2 percent higher than they were a year ago and have begun rising again. The overall CPI was 4.3 percent higher than it was in June 2005 (see top chart). The core CPI (which excludes the volatile food and energy prices) rose by 0.3 percent for the fourth consecutive month. The 12-month change in the core CPI moved up to 2.7 percent in June.
- **Workers' earnings failed to keep up with living costs in the past year.** The real (inflation-adjusted) average hourly earnings of production or nonsupervisory workers on private nonfarm payrolls edged up in June but remained 0.6 percent below last year's level. A different measure, the real usual weekly earnings of the typical (median) full-time wage and salary worker, fell 1.5 percent over the year ending in the second quarter of 2006.
- **Homebuilding weakened in June.** The number of new privately owned housing units started fell by 5.3 percent in June to an annual rate of 1.850 million units. That was 11.0 percent below the level of starts a year earlier. Moreover, the number of permits authorized for new privately owned homes declined 4.3 percent to 1.862 million units at an annual rate, the lowest issuance rate in over three years (see bottom chart). That decline suggests homebuilding is likely to weaken further.
- **Housing and inflation data highlight the Fed's dilemma.** Testifying before Congress on the same day as the inflation and housing reports were released, Federal Reserve Chairman Bernanke predicted that both inflation and economic growth are likely to moderate somewhat in the near term, but he acknowledged that there are risks in both directions as the Fed contemplates its next interest rate decision. Rising energy prices and an uptick in core inflation are a concern, but so too is the possibility that the economy could slow too much.

The Economy at a Glance	Jun	May	Apr	Mar	2006 Qtr 2	2006 Qtr 1	2005 Qtr 4	2005 Qtr 3	2005	2004
<b>Economic Activity</b>										
Real GDP (% growth)*	—	—	—	—	n.a.	5.6	1.7	4.1	3.5	4.2
Industrial Production (% growth)	10.0	1.2	10.0	6.2	6.6	5.1	5.3	1.4	3.3	4.1
Capacity Utilization (level, %)	82.4	81.8	81.9	81.3	82.0	81.1	80.5	79.8	80.0	78.6
Civilian Unemployment Rate (level, %)	4.6	4.6	4.7	4.7	4.7	4.7	5.0	5.0	5.1	5.5
Housing Starts (thousands)	1850	1953	1832	1972	1878	2123	2060	2101	2073	1950
Real Disposable Personal Income (% growth)*	n.a.	0	1.2	-1.2	n.a.	1.5	5.1	-1.4	1.3	3.4
Retail Sales (% growth)	-1.0	1.6	8.3	8.7	3.7	13.4	1.9	8.5	7.2	6.2
Personal Saving Rate (level, %)*	n.a.	-1.7	-1.6	-1.5	n.a.	-1.4	-0.5	-1.6	-0.5	1.8
<b>Inflation &amp; Productivity</b>										
CPI-U Inflation, all items (% growth)	2.4	4.9	7.4	4.9	5.0	2.2	3.2	5.5	3.4	2.7
Core CPI-U Inflation (% growth)	3.7	3.7	3.7	3.7	3.5	2.4	2.4	1.6	2.2	1.8
Compensation per hour (% growth)*	—	—	—	—	n.a.	2.4	3.2	3.2	3.3	3.7
Output per hour (% growth)	—	—	—	—	n.a.	3.7	-0.3	4.2	2.7	3.4
<b>Financial Markets</b>										
T-bill Rate, 3-month (level, %)	4.79	4.72	4.60	4.51	4.70	4.39	3.83	3.36	3.15	1.37
T-note Rate, 10-years (level, %)	5.11	5.11	4.99	4.72	5.07	4.57	4.49	4.21	4.29	4.27
Federal Funds Rate (level, %)	4.99	4.94	4.79	4.59	4.91	4.46	3.98	3.46	3.22	1.35
Dow Jones Industrial Avg (index level)	10998	11334	11235	11144	11189	10996	10616	10544	10548	10317

Sources: Bureau of Economic Analysis, U.S. Department of Commerce; Bureau of the Census, U.S. Department of Commerce; Bureau of Labor Statistics, U.S. Department of Labor; Board of Governors of the Federal Reserve System; Wall Street Journal; and Haver Analytics.

Notes: Except where otherwise noted, values in the table represent percentage growth measured at seasonally adjusted **annual** rates. Growth in retail sales includes food services. Core CPI-U inflation is the percentage change in the CPI-U excluding food and energy as reported by the Bureau of Labor Statistics. The Employment Cost Index is for civilian workers. Productivity is output per hour for private nonagricultural establishments. The 3-month Treasury bill rate is the secondary market rate.

n.a. Denotes that data are not yet available.

\* Subject to revision over the next week.

### Upcoming Economic Releases:

- **Existing Home Sales: June 2006** [Release: Tuesday, July 25]
- **Advance Report on Durable Goods Manufacturers' Shipments, Inventories and Orders: June 2006** [Release: Thursday, July 27]
- **New Residential Sales: June 2006** [Release: Thursday, July 27]
- **Employment Cost Index: June 2006** [Release: Friday, July 28]
- **Gross Domestic Product: Second Quarter 2006 (Advance) and Annual Revision (First Quarter 2003 through First Quarter 2006)** [Release: Friday, July 28]